

Politics

Plunging oil prices force Alaska look for ways to address budget woes

By Becky Bohrer January 18

JUNEAU, Alaska — After years of being flush with oil money, Alaska now faces drastic budget cuts and having to dip into well-stocked savings to offset unprecedented deficits exacerbated by an unexpected plunge in oil prices.

When lawmakers left Juneau last April, the price of North Slope crude, Alaska's economic lifeblood, was \$107 a barrel. On the eve of a new legislative session, starting Tuesday, the price had dropped by more than half.

Alaska heavily relies on oil revenue to fund the cost of state government, but the fall in prices has contributed to an estimated 80 percent decline in the state's share of production taxes from last year.

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The new governor, Republican-turned-independent Bill Walker, is among those calling for a look at revenues along with budget cuts, but that could involve ideas that no one who dreams of reelection is eager to take up.

Among those ideas are instituting a personal income or sales tax, or tapping Alaska's oil wealth

fund, which provides nearly every Alaskan with a yearly check just for living in the state.

“The numbers just don’t allow you to cut your way out of this, not without some severe impacts on the economy,” said David Teal, director of Alaska’s Legislative Finance Division.

Alaska is no stranger to oil’s booms and busts. In the past few years, high oil prices helped insulate Alaska from the brunt of the recession felt acutely elsewhere.

Unemployment hit a high of 11.5 percent during a crash that saw about 35,000 people flee Alaska between mid-1986 and mid-1988. The Trans-Alaska Pipeline System was just 10 years old in 1987.

Caroline Schultz, an economist with the state labor department, doesn’t expect a repeat with the current price drop. The economy is more mature today and diversified, with residents having deeper roots, she said.

Today, though, there’s far less oil. Oil production peaked at 2.1 million barrels a day in the late 1980s; production for this year is forecast to average 509,500 barrels a day. The size of government is bigger, as is the population.

This year’s budget deficit alone, estimated at \$3.5 billion, is bigger than the entire state general fund budget in 2006, Teal said.

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Gunnar Knapp, director of the Institute of Social and Economic Research at the University of Alaska at Anchorage, said lawmakers don’t have to drastically cut spending this year or raise new revenue. But Knapp said the longer it takes for them and Walker to make decisions, the faster they will burn through savings.

Every year, most Alaskans receive a dividend based on the five-year average of the realized

earnings of Alaska's oil wealth account, the Alaska Permanent Fund.

Democratic Sen. Bill Wielechowski of Anchorage has proposed putting the earnings reserve account off-limits to lawmakers by protecting it in the constitution. The account had \$7.5 billion at the end of November.

Wielechowski said lawmakers should find other sources of funds, such as setting a minimum oil tax to better protect the state from low oil prices.

Walker has said Alaska this year stands to pay out about \$100 million more in oil and gas credits than the production tax brings in. He hasn't proposed an alternative, but some Republican and Democratic lawmakers support looking at the credit issue.

Many in the GOP-controlled legislature are looking to a proposed major liquefied-natural-gas project as the state's next-best hope for any significant new revenue. That project is years away from production, if it gets built, and the state would have to invest potentially billions of dollars to reach that point.

Incoming Senate President Kevin Meyer (R) wants to reduce spending and cut any fat from the budget before getting into ways to generate more revenue. He and other lawmakers are clear about the repercussions: It's going to hurt.

Walker has yet to propose any specific cuts or new sources of revenue, but the bare-bones infrastructure budget he put forth as a placeholder after taking office last month set the tone. He also halted new spending on six megaprojects but has yet to officially nix any.

He has asked Alaskans for their ideas for saving money or raising it. Those with the top five ideas will have a chance to eat lunch with Walker and Lt. Gov. Byron Mallott (D).

But don't expect anything more extravagant in these lean times than soup and sandwiches.

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